

Message Text

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SUBJECT: SWEDISH DRAFT NATIONAL BUDGET FY 1977

SUMMARY. GOVERNMENT'S BUDGET STATEMENT TO PARLIAMENT JANUARY 12 PRESENTED FEW INNOVATIONS, PROVIDING MAINLY FOR CONTINUATION OF PROGRAMS AND SELECTIVE ECONOMIC STIMULANTS ALREADY EITHER APPLIED OR ANNOUNCED. BUDGET FOR FY 1977 EXPECTED TO TOP SKR 110 BILLION (\$25 BILLION) WITH SKR 12 BILLION DEFICIT. PRIME POLICY OBJECTIVE WILL BE TO MAINTAIN FULL EMPLOYMENT WHILE CREATING CONDITIONS FOR GRADUAL RESTORATION OF EXTERNAL BALANCE. BUDGET IS BEING CRITICIZED FOR LACK OF NEW IDEAS, INADEQUATE STIMULATIVE MEASURES, AND UNREALISTICALLY OPTIMISTIC ASSUMPTIONS. END SUMMARY.

1. FINANCE MINISTER GUNNAR STRANG PRESENTED GOVERNMENT'S FY 1977 BUDGET STATEMENT TO PARLIAMENT JANUARY 12. DRAFT BUDGET IMPLIES THAT GOVERNMENT'S BORROWING REQUIREMENTS ARE EXPECTED TO GO ON RISING FROM LEVEL OF APPROXIMATELY SKR 11 BILLION REACHED IN FY 1976 (\$1.00 CURRENTLY EQUALS ABOUT SKR 4.40):

KRONOR, BILLIONS US DOLLARS, BILLIONS

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REVENUE 98.2 22.3

EXPENDITURE	110.2	25.0
BALANCE	-12.0	-2.7

2. TOTAL REVENUES ARE EXPECTED TO BE ALMOST 11 PERCENT (SKR 9.4 BILLION) ABOVE REVISED ESTIMATE FOR FY 76, A LOWER RATE OF INCREASE THAN BETWEEN TWO PREVIOUS FISCAL YEARS, LARGELY BECAUSE WAGES ARE EXPECTED TO RISE LESS RAPIDLY IN 1976 AND 1977 THAN IN 1975 AND BECAUSE TAX REDUCTIONS AFFECTING 1975 AND 1976 RETURNS WILL LESSEN FY 77 COLLECTIONS.

3. EXPENDITURES ARE CALCULATED TO RISE 10.4 PERCENT (SKR 10.4 BILLION) OVER REVISED ESTIMATE FOR FY 76. LARGEST SHARE OF THIS INCREASE IS DUE TO ADJUSTMENTS TO PRICES AND WAGES, VOLUME CHANGES OF AN AUTOMATIC NATURE AND CONSEQUENCES OF REFORMS DECIDED EARLIER.

4. PRIMARY GOAL OF SWEDISH ECONOMIC POLICY WILL BE TO MAINTAIN FULL EMPLOYMENT. STATEMENT NOTES THAT INCREASED FOREIGN DEBT WAS ACCEPTED DELIBERATELY AS CONDITION FOR GROWTH OF EMPLOYMENT IN MIDST OF INTERNATIONAL RECESSION. POLICY NOW AIMS AT RESTORING FOREIGN BALANCE IN STEP WITH INTERNATIONAL RECOVERY, IN ORDER TO AVOID A DEBT BURDEN THAT WOULD EVENTUALLY HAVE TO BE REDUCED THROUGH DEFLATION. LARGE ACCUMULATIONS OF INDUSTRIAL STOCKS IN 1975 WILL MEAN THAT, DESPITE GRADUAL INTERNATIONAL RECOVERY, IT WILL BE SOME TIME BEFORE EXPORTS PUSH UP PRODUCTION. GOVERNMENT WILL THEREFORE "CAUTIOUSLY STIMULATE" DOMESTIC DEMAND IN FY 76 TO MAINTAIN EMPLOYMENT WHILE PURSUING GOALS OF PRICE STABILITY AND EXTERNAL BALANCE.

5. ASSUMPTIONS UNDERLYING BUDGET STATEMENT AND NATIONAL ACCOUNTS ESTIMATES FOR CY 76 ARE OPTIMISTIC, POSITING GENERAL IMPROVEMENT IN INTERNATIONAL ACTIVITY AND RISING DEMAND. SWEDEN'S GDP GROWTH (MEASURED IN MARKET PRICES) IS EXPECTED TO INCREASE 1.6 PERCENT IN CY 76 COMPARED TO 0.5 PERCENT IN 1975. TOTAL DEMAND (GROSS INVESTMENTS EXCLUDING INVESTMENT IN STOCKS, PRIVATE AND PUBLIC CONSUMPTION, NET SERVICES, IMPORTS) IS EXPECTED TO RISE 3.5 PERCENT MAINLY DUE TO 6.5 PERCENT REAL INCREASE IN EXPORTS OVER LOW CY 75 LEVEL. GOVERNMENT ANTICIPATES SUBSTANTIAL IMPROVEMENT IN EXTERNAL BALANCE -- SWING FROM TRADE DEFICIT OF SKR 2.95 BILLION IN CY 75 TO SURPLUS OF SKR 1.16 BILLION. DEFICIT IN CURRENT ACCOUNT EXPECTED TO DECREASE FROM SKR 7.6 BILLION IN CY 75

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TO SKR 5.1 BILLION.

6. AMONG AREAS GIVEN HIGHEST PRIORITY IN BUDGET ARE REFORMS TO BASIC PENSIONS, FAMILY POLICY MEASURES, LABOR-MARKET SECURITY, AND INDUSTRIAL EXPANSION. MAJOR BOOSTS TO INDUSTRIAL INVESTMENT WILL AID STATE-OWNED COMPANIES MORE THAN PRIVATE SECTOR. GOS WILL INCREASE SHARE CAPITAL OF STATE-HOLDING COMPANY STATSFORETAG BY SKR 1.5 BILLION, AND SPEND YET-UNANNOUNCED MILLIONS ON STALVERK

80/85 (STATE-OWNED STEELWORKS IN NORTH). PRIVATE SECTOR WILL GET ADDITIONAL FUNDS THROUGH PURCHASE BY GOVERNMENT'S FOURTH AP (PENSION) FUND OF SECOND SKR 500 MILLION IN SHARES OF PRIVATE COMPANIES. TOTAL DEFENSE EXPENDITURE WILL BE SKR 11,150 MILLIONS, UP ONLY 8 PERCENT FROM 1976.

7. STRANG HINTED AT POSSIBLE PRICE CONTROLS, COMMENTING THAT SINCE GOS WAS NOT PREPARED TO DEPART FROM FULL-EMPLOYMENT GOAL IN ORDER TO STABILIZE PRICES, ADDITIONAL EFFORTS ARE REQUIRED TO KEEP DEVELOPMENT OF PRICES AND COSTS IN STEP WITH OTHER COUNTRIES.

8. REACTIONS. INITIAL REACTIONS WERE MILD. THORBJORN FALLDIN AND PER AHLMARK, CENTER AND LIBERAL PARTY LEADERS, COMPLAINED PREDICTABLY THAT APPROPRIATION AIMED AT STIMULATING INVESTMENT WILL GO MOSTLY TO STATE-OWNED FIRMS, WHILE ONLY PRIVATE SECTOR CAN PROVIDE ECONOMIC EXPANSION ON SCALE NEEDED. MODERATE PARTY LEADER GOSTA BOHMAN, SVENSKA HANDELSBANKEN'S ECONOMIST LARS JACOBSSON, AND PROFESSOR GORAN OHLIN OF SWEDISH FEDERATION OF INDUSTRIES THOUGHT BUDGET ASSUMPTIONS TOO OPTIMISTIC. LATTER TWO REGARDED BUDGET AS LACKING IN INNOVATION.

9. COMMENT. APPROACHING SEPTEMBER GENERAL ELECTION MAY HAVE PROMPTED GREATER OPTIMISM IN BUDGET STATEMENT THAN MIGHT OTHERWISE HAVE BEEN CASE. COMMON EXPECTATION IS FOR INCREASED UNEMPLOYMENT THIS YEAR, PARTICULARLY IN IMPORTANT ENGINEERING SECTOR WHERE DEMAND FOR NEW EQUIPMENT WILL OCCUR ONLY AFTER INTERNATIONAL RECOVERY HAS PROGRESSED FAR ENOUGH TO ONCE AGAIN STRAIN INDUSTRIAL CAPACITY. BUDGET DOES NOT PROVIDE MAJOR NEW SUPPORT TO MEET THIS PROBLEM, PERHAPS CONSTRAINED BY GOS WORRY ABOUT MOUNTING FOREIGN DEBT. DESPITE EMPHASIS IN STATEMENT ON STIMULATING INDUSTRIAL INVESTMENT, BUDGET CONTAINS NO NEW MEANS FOR DOING SO AND FORECASTS ONLY ONE-PERCENT GROWTH IN THIS

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AREA, HARDLY A SATISFACTORY FIGURE.
STRAUSZ-HUPE

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